

Legislative Audit Division

State of Montana



Report to the Legislature

February 1997

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1996

Department of Labor and Industry

This report contains three audit recommendations. Issues addressed in the report include:

- ▶ **Following up on potential fraudulent unemployment insurance benefit payments.**
- ▶ **Compliance with federal cash management procedures.**
- ▶ **Calculating federal benefits in accordance with federal regulations.**

**Direct comments/inquiries to:
Legislative Audit Division
Room 135, State Capitol
PO Box 201705
Helena MT 59620-1705**

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act of 1984 and Amendments of 1996, and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1995 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
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Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

February 1997

To the Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Labor and Industry for fiscal years 1994-95 and 1995-96. The report includes recommendations concerning compliance with federal regulations and unemployment insurance benefit eligibility.

The written response to audit recommendations is included at the end of the audit report. We thank the commissioner and department staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

"Signature on File"

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1996

Department of Labor and Industry

Members of the audit staff involved in this audit were Jeane Carstensen-Garrett, Wayne D. Guazzo, Scott Hoversland, Victoria Murphy, Charles Nemec, and Lorry Parriman.

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Appointed and Administrative Officials

Department of Labor and Industry

Pat Haffey	Commissioner
Laurie Ekanger	Commissioner through January 5, 1997
Chuck Hunter	Administrator Employment Relations Division
Anne MacIntyre	Administrator Human Rights Commission
Wendy Keating	Administrator Job Service Division
David Scott	Administrator Legal/Centralized Services Division
Dennis Zeiler	Administrator Unemployment Insurance Division
Mike McCarter	Judge Workers' Compensation Court

Report Summary

Department of Labor and Industry

We performed a financial-compliance audit of the Department of Labor and Industry for the two fiscal years ended June 30, 1996. Of the eight prior audit recommendations, the department implemented seven recommendations, and partially implemented one recommendation.

We issued an unqualified opinion on the financial schedules which means the reader may rely on the presented financial information and the supporting data on the Statewide Budgeting and Accounting System.

This audit report contains three recommendations to the department and one disclosure issue. The recommendations relate to compliance with unemployment insurance eligibility, the federal Cash Management Improvement Act, and federal regulations for calculating benefits. The disclosure issue relates to a state law regarding charging fees which are commensurate with costs incurred. The department concurred with all of the recommendations.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the department determine whether recipients in its computer match were eligible to receive unemployment insurance benefits and recover amounts inappropriately paid. 8

Department Response: Concur. See page B-4.

Recommendation #2

We recommend the department ensure accurate information is used in the calculation of interest liabilities under the state's negotiated federal Cash Management Improvement Act agreement. 9

Department Response: Concur. See page B-4.

Recommendation #3

We recommend the department calculate Trade Readjustment Allowances in accordance with federal regulations. 10

Department Response: Concur. See page B-4.

Report Summary

Introduction

Introduction

We performed a financial-compliance audit of the Department of Labor and Industry (department) for the two fiscal years ended June 30, 1996. The objectives of the audit were to:

1. Determine department compliance with applicable laws and regulations.
2. Make recommendations for improvements in the management and internal accounting controls of the department.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the financial schedules present fairly the results of operations of the department for the two fiscal years ended June 30, 1996.

This report contains three recommendations to the department and one disclosure issue. Other areas of concern deemed not to have a significant effect on the successful operations of the department are not specifically included in the report, but have been discussed with management.

As required by section 17-8-101(5), MCA, we audited and are reporting on the reasonableness of internal service fund type fees and fund equity balances at the department. The statute requires fees and charges for services which are deposited into internal service funds be based upon commensurate costs. The internal service funds at the department are the Commissioner's Office/Central Services Division and Information Services/Central Services Division. See page 11 for the disclosure issue related to the statute.

In accordance with section 5-13-307, MCA, we analyzed and disclosed, if significant, the costs of implementing the recommendations made in this report.

Introduction

Background

The Department of Labor and Industry was created by the Executive Reorganization Act of 1971. The department operates as a part of a national employment, unemployment insurance benefits, and training system that assists individuals in preparing for and finding jobs. In addition, the department assists employers in finding workers, and assists workers with benefits if they are temporarily unemployed through no fault of their own.

The department enforces state and federal labor, state wage and hour, discrimination, and state and federal health-safety laws. In addition, the department conducts research and collects statistics that enable strategic planning, and provides adjudicative services in labor-management disputes.

Currently the department is organized into four divisions and the Commissioner's Office. In addition, the Human Rights Commission and Workers' Compensation Court are administratively attached to the department. A brief description of each follows:

Commissioner's Office - provides overall administration and support services to the department. The office is responsible for the overall administration of the department including provision of program direction and management of human and financial resources.

Employment Relations Division - Employment Relations administers and enforces state statutes through a board and five bureaus. The functional units include: Board of Personnel Appeals, Administrative Support Unit, Workers' Compensation Claims Assistance Bureau, Safety Bureau, Labor Standards Bureau, and the Workers' Compensation Regulation Bureau (108 FTE).

Unemployment Insurance Division - Unemployment Insurance administers the state's unemployment insurance laws and related federal programs. The division operates through the Administrative Services, Contributions, Benefits, and Program Support Bureaus (108 FTE).

Job Service Division - provides a wide range of employment and training programs such as employment services, unemployment services, unemployment insurance, veterans services, job training partnership, and trade adjustment assistance (369 FTE).

Legal/Centralized Services Division - provides all legal and adjudicative services for the department and includes the Board of Labor Appeals. The division is responsible for providing support services to department functions. Support services include programming and basic information service for the department's computers, personnel, payroll, accounting, purchasing, and budgeting (61 FTE).

Workers' Compensation Court - provides a legal forum for Montana's employees and the insurance industry to resolve disputes arising out of work-related injuries and occupational disease (6 FTE).

Human Rights Commission- is responsible for enforcement of the Montana Human Rights Act and the Governmental Code of Fair Practices through investigations, conciliation, hearings, and education (19 FTE).

Prior Audit Recommendations

Prior Audit Recommendations

The prior financial-compliance audit of the Department of Labor and Industry for the two fiscal years ended June 30, 1994, contained eight recommendations. The department fully implemented seven and partially implemented one recommendation. The recommendation partially implemented, relating to federal unemployment insurance cash management, is discussed again on page 8.

Findings and Recommendations

Ineligible Recipients of Unemployment Insurance

State law disqualifies any student from receiving unemployment insurance benefits who regularly attends an established educational institution. There are two exceptions. The department may grant an exemption to a student for department approved training. An individual may also attend an adult basic education class 20 hours a week or less while laid off from a job if the person is willing to return to work when notified. The department cross matched unemployment insurance payment records with university enrollment records at all six units of the university system and identified 593 individuals who may have collected unemployment insurance benefits to which they were not entitled. The department has not allocated resources to review the details of each individual case to determine the amount of unemployment claims overpaid and the amount of benefits and penalties which should be returned to the state.

In the prior audit we performed a similar cross match and reported the department paid approximately \$80,000 in unemployment insurance benefits to as many as 80 ineligible students attending one of Montana's university units between July 1992 and February 1994. In August 1995, the department assessed a claim for overpayments and penalties amounting to \$72,972 against 60 of the recipients and collected \$13,009 from 25 of those recipients.

As of January 1997, the department determined it had no issue, or no defensible issue, with 18 of the 60 recipients. Recipients still owe the state \$37,782. Twenty-nine recipients paid a total of \$17,209, of which 15 recipients have paid in full. The department initiated prosecution of one recipient.

Department officials believe the department does not have sufficient resources to commit in following up on the additional 593 potential ineligible recipients of unemployment benefits. Although there will be a cost to pursue ineligible recipients, we believe the money recovered from ineligible recipients should be more than sufficient to pay for the additional personal service costs. The department should actively pursue inappropriately paid and ineligible recipients of unemployment insurance.

Findings and Recommendations

Recommendation #1

We recommend the department determine whether recipients in its computer match were eligible to receive unemployment insurance benefits and recover amounts inappropriately paid.

Unemployment Insurance Cash Management

The agreement between the state of Montana (State) and U.S. Secretary of the Treasury (Secretary) sets forth the terms and conditions for implementing the requirements of the federal Cash Management Improvement Act of 1990 (CMIA). The agreement took effect on July 1, 1994. Funds withdrawn from the Department of Labor and Industry's Unemployment Insurance Trust Fund (CFDA #17.225) are subject to the requirements of the agreement.

During our previous audit of the department, we noted the department was not using the clearance pattern approved in the agreement for fiscal year 1993-94. In their response to the prior audit recommendation, department personnel noted a new clearance pattern was established and went into effect July 1, 1994.

The current agreement requires the state to transfer funds to the benefit payment account based on the new estimated check clearance pattern calculated by the department. The clearance pattern is an estimate of time it takes after the issuance date for benefit checks to clear the state bank. The agreement notes when the clearance pattern is properly applied, no interest liability is incurred by the State. If the clearance pattern is not properly applied, the State is responsible for calculating the interest liability.

The department calculated a federal interest liability of \$5,858 for fiscal year 1994-95. Department personnel noted the primary reason for this was the department based cash draws on the amount of benefit checks issued less reimbursements from other states for combined wage claims. A combined wage claim results when an employee has worked in another state during the period upon which unemployment insurance is based.

Findings and Recommendations

The department calculated a state interest liability of \$48 for fiscal year 1995-96. During our review of the department's calculation of interest liability we noted errors in the calculation for fiscal years 1994-95 and 1995-96. These errors are as follows:

- The calculation compares the amount of cash which should have been drawn to the amount of cash actually drawn. We noted 7 days in which the amount for cash actually drawn was incorrect.
- The amount of cash to draw is based on checks issued and the estimated clearance pattern. We noted instances where the amount of checks issued was adjusted subsequent to the cash being drawn and instances where the amount of checks issued was incorrect.
- The department rounds the amount of cash draws to the nearest \$5,000. Department personnel believed they were to draw in \$5,000 increments but could not find where this was required. The only requirement they found was that they were to draw at least \$5,000.

Recommendation #2

We recommend the department ensure accurate information is used in the calculation of interest liabilities under the state's negotiated federal Cash Management Improvement Act agreement.

Trade Adjustment Assistance

The federal Trade Adjustment Act (CFDA #17.245) created a program to assist individuals, who became unemployed as a result of increased imports, to return to suitable employment. The program provides for reemployment services and allowances for eligible individuals. The department receives federal moneys to support the program.

The department calculates the amount of weekly Trade Readjustment Allowance (TRA) benefits when the claimant applies for TRA.

Findings and Recommendations

Claimants apply for a determination of TRA entitlement while they are still collecting unemployment insurance (UI) benefits. When the UI benefits conclude, the TRA payments may begin. We identified one instance where the UI benefits were adjusted between the time of application for TRA and the conclusion of UI benefits, and two instances where the UI calculation was revised after TRA benefits had started. Federal regulations require the TRA benefit be based on the most recent weekly UI benefit amount. Although the payment errors were not significant, the department should establish a system to correctly calculate TRA benefits.

We also noted an instance where a TRA claimant collected Student Financial Aid. The claimants TRA benefits were not reduced by the amount of Student Financial Aid as required by federal regulation. The claimant was overpaid by approximately \$625. Department personnel had notified the claimant that the benefits would be reduced, but the information was never updated on the database, so the benefits were not reduced accordingly. Based on this and the errors discussed above, we question \$661 of TRA federal assistance during fiscal year 1995-96.

After we brought the situation to the attention of department personnel, they implemented changes in the TRA process. Once a quarter, department personnel review UI benefits to ensure changes have not been made to the UI calculation. Also, prior to TRA payments, personnel verify the final UI benefit payment to ensure the amount of TRA benefits that will be paid is correct. These procedures should reduce the errors.

Recommendation #3

We recommend the department calculate Trade Readjustment Allowances in accordance with federal regulations.

Internal Service Fund Charges For Services Commensurate With Costs

The department operates internal service funds for Central Services Division (CSD) activity. CSD's purpose is to provide accounting, legal, personnel, training, payroll, budgeting, purchasing, supply, mail, and information services to all of the department's divisions. CSD is required to charge the divisions at a rate which balances fee revenue with CSD costs. These costs are considered to be indirect costs of operating each division's programs.

Section 17-8-101(5), MCA, requires fees and charges for services which are deposited into internal service funds to be based upon commensurate costs. The statute further requires the Legislative Auditor to report on the reasonableness of the rates charged and on the fund equity balance during regularly scheduled audits. The department's divisions which operate federal programs are allowed to recover these indirect costs from the federal programs. Federal Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, states that federal programs are expected to bear their fair share of allowable costs.

During fiscal year 1995-96, CSD personnel performed a reconciliation of the fund equity in one of the accounts which records CSD activity. CSD personnel noted approximately \$210,000 of excess fund equity. The department has informed the U. S. Department of Labor of the situation. The department plans to reduce the excess through a reduction in the indirect cost rate charged for fiscal years 1996-97 and 1997-98. The department has calculated that the reduction in rates should reduce fund equity by approximately \$140,000 and \$70,000 in fiscal years 1996-97 and 1997-98, respectively.

Independent Auditor's Report & Agency Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Department of Labor and Industry for each of the two fiscal years ended June 30, 1995 and 1996, as shown on pages A-5 through A-18. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances/property held in trust of the Department of Labor and Industry for the two fiscal years ended June 30, 1995 and 1996, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

"Signature on File"

James Gillett, CPA
Deputy Legislative Auditor

January 14, 1997

DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1996

	General Fund	Special Revenue Funds	Debt Service Funds	Enterprise Funds	Internal Service Funds	Agency Funds	Expendable Trust Funds
FUND BALANCE: July 1, 1994	\$ 0	\$ 3,484,423	\$ 0	\$ 5,969,929	\$ 343,196		\$ 97,362,409
PROPERTY HELD IN TRUST: July 1, 1994						\$ 51,893,852	
ADDITIONS							
<u>Fiscal Year 1994-95</u>							
Budgeted Revenues & Transfers-In		40,073,783	197,228	5,065,313	1,647,738		73,308,464
Nonbudgeted Revenues & Transfers-In	309,703						
Cash Transfers		540,408					
Prior Year Revenues		(1,962)					
Prior Year Revenue Adjustments		4,676		(204,742)			52,844
Prior Year Transfer-In Adjustments		11,370					
Direct Entries to Fund Balance		(54,005)		(21,584)			73,723
Support From State of Montana	699,859						
Additions to Property Held In Trust						6,080,838	
<u>Fiscal Year 1995-96</u>							
Budgeted Revenues & Transfers-In		39,044,215	227,071	4,816,901	1,563,628		72,050,898
Nonbudgeted Revenues & Transfers-In	(3,118)	2,370					
Prior Year Revenues		(32,727)					
Prior Year Revenue Adjustments		272,983		(21,211)			67,046
Prior Year Transfer-In Adjustments		1,082					
Direct Entries to Fund Balance		(7,821)			24,359		7,821
Support From State of Montana	1,250,937						
Additions to Property Held In Trust						1,116,373	
Total Additions	<u>2,257,381</u>	<u>79,854,372</u>	<u>424,299</u>	<u>9,634,677</u>	<u>3,235,725</u>	<u>7,197,211</u>	<u>145,560,796</u>
REDUCTIONS							
<u>Fiscal Year 1994-95</u>							
Budgeted Expenditures & Transfers-Out	1,014,660	40,632,559		1,161,467	1,607,860		
Prior Year Expenditures		2,663					
Nonbudgeted Expenditures & Transfers-Out			197,228	2,846,822	(16,989)		61,618,287
Prior Year Expenditure Adjustments	(5,098)	6,666		30,172	(62)		
Nonbudgeted Prior Year Expenditure Adjustments				(42,241)	(32,758)		56,361
Reduction to Property Held In Trust						55,714,942 ¹	
<u>Fiscal Year 1995-96</u>							
Budgeted Expenditures & Transfers-Out	1,248,749	38,628,507		1,362,943	1,589,885		
Prior Year Expenditures		(42,054)					
Nonbudgeted Expenditures & Transfers-Out		2,370	227,071	1,627,779	(9,343)		65,738,492
Prior Year Expenditure Adjustments	(930)	229,832		49,736	50		
Nonbudgeted Prior Year Expenditure Adjustments		5,180		(54,058)	22,361		(4,257)
Cash Transfers		986,143					
Reduction to Property Held In Trust						538,320	
Total Reductions	<u>2,257,381</u>	<u>80,451,866</u>	<u>424,299</u>	<u>6,982,620</u>	<u>3,161,004</u>	<u>56,253,262</u>	<u>127,408,883</u>
FUND BALANCE: June 30, 1996	\$ 0	\$ 2,886,929	\$ 0	\$ 8,621,986	\$ 417,917		\$ 115,514,322
PROPERTY HELD IN TRUST: June 30, 1996						\$ 2,837,801	

¹ See note 7 on page A-18.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-15.

DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF TOTAL REVENUES, TRANSFERS-IN & OTHER ADDITIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

	General Fund	Special Revenue Funds	Debt Service Funds	Enterprise Funds	Internal Service Funds	Expendable Trust Funds	Total
TOTAL REVENUES BY CLASS							
Licenses & Permits		\$ 6,500					\$ 6,500
Charges for Services		4,663,328		\$ 666,085	\$ 576,082		5,905,495
Investment Earnings		146,688		356,552		\$ 8,317,744	8,820,984
Fines & Forfeits		248,271		3,631,575			3,879,846
Federal Indirect Cost Recoveries					950,000		950,000
Sale of Documents and Merchandise		10,946		134,691			145,637
Rentals, Leases & Royalties					37,546		37,546
Contributions & Premiums		3,903,083				58,561,814	62,464,897
Miscellaneous	\$ 115	(1,484)					(1,369)
Grants, Contracts & Donations		2,597,438		6,787			2,604,225
Other Financing Sources	(3,233)	8,632					5,399
Federal		27,737,248	\$ 227,071			5,238,386	33,202,705
Total Revenues	(3,118)	39,320,650	227,071	4,795,690	1,563,628	72,117,944	118,021,865
Less: Nonbudgeted Revenues	(3,118)	2,370					(748)
Prior-Year Revenue Adjustments		274,065		(21,211)		67,046	319,900
Actual Budgeted Revenues	0	39,044,215	227,071	4,816,901	1,563,628	72,050,898	117,702,713
Estimated Revenues		43,839,575	159,175	3,086,802	1,642,058	79,000,000	127,727,610
Budgeted Revenues Over (Under) Estimated	\$ 0	\$ (4,795,360)	\$ 67,896	\$ 1,730,099	\$ (78,430)	\$ (6,949,102)	\$ (10,024,897)
BUDGETED REVENUES OVER (UNDER) ESTIMATED BY CLASS							
Licenses & Permits		\$ 498					\$ 498
Charges for Services		(302,582)		\$ (112,443)	\$ (54,918)		(469,943)
Investment Earnings		88,866		209,052		\$ 1,250,342	1,548,260
Fines & Forfeits		(68,729)		1,653,521			1,584,792
Federal Indirect Cost Recoveries					(15,000)		(15,000)
Sale of Documents and Merchandise		(1,054)		(5,611)			(6,665)
Rentals, Leases & Royalties					(8,512)		(8,512)
Contributions & Premiums		107,083				5,562,170	5,669,253
Miscellaneous		(1,800)					(1,800)
Grants, Contracts & Donations		(1,042,957)		(14,420)			(1,057,377)
Other Financing Sources		(20,000)					(20,000)
Federal		(3,554,685)	\$ 67,896			(13,761,614)	(17,248,403)
Budgeted Revenues Over (Under) Estimated		\$ (4,795,360)	\$ 67,896	\$ 1,730,099	\$ (78,430)	\$ (6,949,102)	\$ (10,024,897)

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-15.

DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF TOTAL REVENUES, TRANSFERS-IN & OTHER ADDITIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 1995

	General Fund	Special Revenue Funds	Debt Service Funds	Enterprise Funds	Internal Service Funds	Expendable Trust Funds	Total
TOTAL REVENUES BY CLASS							
Licenses & Permits		\$ 39,376					\$ 39,376
Charges for Services		1,765,044		\$ 126,243	\$ 591,717		2,483,004
Investment Earnings		134,532		266,736		\$ 8,643,358	9,044,626
Fines & Forfeits		452,816		4,115,131			4,567,947
Federal Indirect Cost Recoveries					1,004,574		1,004,574
Sale of Documents and Merchandise		2,310		97,326			99,636
Rentals, Leases & Royalties					51,447		51,447
Contributions & Premiums		3,727,113				58,336,763	62,063,876
Miscellaneous		1,484					1,484
Grants, Contracts & Donations		2,927,445		11,979			2,939,424
Other Financing Sources	\$ 309,703	2,618,088		243,156			3,170,947
Federal		28,421,622	\$ 197,228			6,381,187	35,000,037
Total Revenues	<u>309,703</u>	<u>40,089,830</u>	<u>197,228</u>	<u>4,860,571</u>	<u>1,647,738</u>	<u>73,361,308</u>	<u>120,466,378</u>
Less: Nonbudgeted Revenues	309,703						309,703
Prior-Year Revenue Adjustments		16,047		(204,742)		52,844	(135,851)
Actual Budgeted Revenues	<u>0</u>	<u>40,073,783</u>	<u>197,228</u>	<u>5,065,313</u>	<u>1,647,738</u>	<u>73,308,464</u>	<u>120,292,526</u>
Estimated Revenue		44,211,525	56,000	3,004,132	2,163,501	70,117,000	119,552,158
Budgeted Revenues Over (Under) Estimated	<u>\$ 0</u>	<u>\$ (4,137,742)</u>	<u>\$ 141,228</u>	<u>\$ 2,061,181</u>	<u>\$ (515,763)</u>	<u>\$ 3,191,464</u>	<u>\$ 740,368</u>
BUDGETED REVENUES OVER (UNDER) ESTIMATED BY CLASS							
Licenses & Permits		\$ (5,125)					\$ (5,125)
Charges for Services		135,398		\$ (235,035)	\$ 7,717		(91,920)
Investment Earnings		70,206		141,237		\$ 2,528,761	2,740,204
Fines & Forfeits		77,216		2,646,752			2,723,968
Federal Indirect Cost Recoveries					(508,000)		(508,000)
Sale of Documents and Merchandise		1,310		15,326			16,636
Rentals, Leases & Royalties					(15,480)		(15,480)
Contributions & Premiums		251,113				8,340,509	8,591,622
Miscellaneous		(5,516)					(5,516)
Grants, Contracts & Donations		(568,558)		(28,021)			(596,579)
Other Financing Sources		(123,650)		(479,078)			(602,728)
Federal		(3,970,136)	\$ 141,228			(7,677,806)	(11,506,714)
Budgeted Revenues Over (Under) Estimated		<u>\$ (4,137,742)</u>	<u>\$ 141,228</u>	<u>\$ 2,061,181</u>	<u>\$ (515,763)</u>	<u>\$ 3,191,464</u>	<u>\$ 740,368</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-15.

DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF TOTAL EXPENDITURES, TRANSFERS-OUT & OTHER REDUCTIONS BY OBJECT BY PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

	Job Service Division	Commissioner's Office/CSD	Employment Relations Division	Legal Services Division	Human Rights Commission	Workers Compensation Court	Total
PROGRAM EXPENDITURES BY OBJECT							
Personal Services							
Salaries	\$ 9,166,637	\$ 1,586,237	\$ 4,905,188		\$ 481,594	\$ 204,899	\$ 16,344,555
Other Compensation	3,590	7,900	5,975		3,550		21,015
Employee Benefits	2,412,850	394,964	1,271,789		119,405	47,397	4,246,405
Personal Services-Other	(460)	3,991	(7,804)				(4,273)
Total	11,582,617	1,993,092	6,175,148		604,549	252,296	20,607,702
Operating Expenses							
Services	1,349,280	176,514	1,439,960	\$ (4,051)	40,352	20,518	3,022,573
Supplies & Materials	484,034	88,101	174,599	280	32,824	6,386	786,224
Communications	370,783	56,243	372,747		41,203	5,976	846,952
Travel	351,941	37,498	207,854		31,941	10,548	639,782
Rent	320,278	40,040	305,371		30,121	18,000	713,810
Utilities	111,664		22,985			2,211	136,860
Repair & Maintenance	274,189	19,022	38,747	58	1,604	3,218	336,838
Other Expenses	1,192,996	241,287	2,103,656	438	45,203	20,787	3,604,367
Total	4,455,165	658,705	4,665,919	(3,275)	223,248	87,644	10,087,406
Equipment and Intangible Assets							
Equipment	381,370	(73,342)	380,396		16,879		705,303
Capital Leases - Equipment	7,550						7,550
Intangible Assets	15,518	10,857	3,472				29,847
Total	404,438	(62,485)	383,868		16,879		742,700
Capital Outlay							
Land & Interest in Land	1,865						1,865
Buildings	60,700	6,291					66,991
Other Improvements	(250)						(250)
Total	62,315	6,291					68,606
Grants							
From State Sources	186,727						186,727
From Federal Sources	11,837,739						11,837,739
From Other Sources	41,000						41,000
Total	12,065,466						12,065,466
Benefits and Claims							
To Individuals			66,034,332				66,034,332
From State Sources			269,617				269,617
From Federal Sources			558,386				558,386

Total			<u>66,862,335</u>				<u>66,862,335</u>
Transfers							
Mandatory Transfers		227,071					227,071
Total		<u>227,071</u>					<u>227,071</u>
Debt Service							
Leases	3,081						3,081
Total	<u>3,081</u>						<u>3,081</u>
Total Program Expenditures	\$ <u>28,573,082</u>	\$ <u>2,822,674</u>	\$ <u>78,087,270</u>	\$ <u>(3,275)</u>	\$ <u>844,676</u>	\$ <u>339,940</u>	\$ <u>110,664,367</u>
PROGRAM EXPENDITURES BY FUND							
General Fund	\$ 392,208		\$ 297,254		\$ 558,357		\$ 1,247,819
Special Revenue Fund	28,020,489	\$ 978,386	9,244,030	\$ (3,275)	286,319	\$ 339,940	38,865,889
Debt Service Fund		227,071					227,071
Enterprise Fund	120,719	53,930	2,811,751				2,986,400
Internal Service Fund	39,666	1,563,287					1,602,953
Expendable Trust Fund			65,734,235				65,734,235
Total Program Expenditures	<u>28,573,082</u>	<u>2,822,674</u>	<u>78,087,270</u>	<u>(3,275)</u>	<u>844,676</u>	<u>339,940</u>	<u>110,664,367</u>
Less: Nonbudgeted Expenditures	2,567	217,728	67,366,074				67,586,369
Prior-Year Expenditure Adjustments	282,300	22,411	(51,799)	(3,275)	(1,125)	(598)	247,914
Actual Budgeted Expenditures	<u>28,288,215</u>	<u>2,582,535</u>	<u>10,772,995</u>	<u>0</u>	<u>845,801</u>	<u>340,538</u>	<u>42,830,084</u>
Budget Authority	32,689,478	3,487,177	11,907,355		1,027,144	366,332	49,477,486
Unspent Budget Authority	\$ <u>4,401,263</u>	\$ <u>904,642</u>	\$ <u>1,134,360</u>	\$ <u>0</u>	\$ <u>181,343</u>	\$ <u>25,794</u>	\$ <u>6,647,402</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 9,487		\$ 7,855		\$ 1		\$ 17,343
Special Revenue Fund	4,340,751	\$ 547,980	1,053,329		181,342	\$ 25,794	6,149,196
Enterprise Fund	40,633	16,322	73,176				130,131
Internal Service Fund	10,392	340,340					350,732
Unspent Budget Authority	\$ <u>4,401,263</u>	\$ <u>904,642</u>	\$ <u>1,134,360</u>	\$ <u>0</u>	\$ <u>181,343</u>	\$ <u>25,794</u>	\$ <u>6,647,402</u>

¹ See note 6 page A-18.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-15.

DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF TOTAL EXPENDITURES, TRANSFERS-OUT & OTHER REDUCTIONS BY OBJECT BY PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 1995

	Job Service Division	Unemployment Insurance Div.	Commissioner's Office/CSD	Employment Relations Division	Legal Services Division	Human Rights Commission	Workers Compensation Court	Total
PROGRAM EXPENDITURES BY OBJECT								
Personal Services								
Salaries	\$ 8,621,432	\$ 3,134,104	\$ 942,443	\$ 2,387,274	\$ 611,202	\$ 455,882	\$ 194,655	\$ 16,346,992
Other Compensation	1,575			5,000	7,250	3,900		17,725
Employee Benefits	2,416,987	860,693	248,042	638,544	152,196	117,274	46,893	4,480,629
Personal Services-Other		3,949	14,092	39,738				57,779
Total	<u>11,039,994</u>	<u>3,998,746</u>	<u>1,204,577</u>	<u>3,070,556</u>	<u>770,648</u>	<u>577,056</u>	<u>241,548</u>	<u>20,903,125</u>
Operating Expenses								
Services	1,094,815	954,575	81,795	599,736	35,399	42,651	14,438	2,823,409
Supplies & Materials	284,958	146,584	45,237	122,892	27,905	14,333	13,044	654,953
Communications	334,534	113,789	25,763	142,501	30,734	34,977	6,022	688,320
Travel	273,131	162,541	8,687	144,290	22,999	36,476	7,181	655,305
Rent	327,430	168,639	10,573	153,969	25,325	27,822	16,800	730,558
Utilities	111,105			22,008			2,190	135,303
Repair & Maintenance	286,372	28,260	15,868	33,620	4,601	2,369	3,513	374,603
Other Expenses	1,105,232	442,723	40,998	2,968,982	75,290	51,382	22,013	4,706,620
Total	<u>3,817,577</u>	<u>2,017,111</u>	<u>228,921</u>	<u>4,187,998</u>	<u>222,253</u>	<u>210,010</u>	<u>85,201</u>	<u>10,769,071</u>
Equipment and Intangible Assets								
Equipment	191,612	264,430	4,597	103,459	36,500	1,621	6,689	608,908
Intangible Assets		6,300		5,708				12,008
Total	<u>191,612</u>	<u>270,730</u>	<u>4,597</u>	<u>109,167</u>	<u>36,500</u>	<u>1,621</u>	<u>6,689</u>	<u>620,916</u>
Capital Outlay								
Land & Interest in Land	6,973							6,973
Other Improvements	51,911							51,911
Total	<u>58,884</u>							<u>58,884</u>
Grants								
From State Sources	362,743							362,743
From Federal Sources	13,472,289							13,472,289
From Other Sources	49,675							49,675
Total	<u>13,884,707</u>							<u>13,884,707</u>
Benefits and Claims								
To Individuals		60,033,193		664,453				60,697,646

From State Sources		(434)		295,763				295,329
From Federal Sources		1,641,889						1,641,889
Total		<u>61,674,648</u>		<u>960,216</u>				<u>62,634,864</u>
Transfers								
Mandatory Transfers			197,228					197,228
Total			<u>197,228</u>					<u>197,228</u>
Debt Service								
Loans	4,691	1,109						5,800
Leases	339							339
Total	<u>5,030</u>	<u>1,109</u>						<u>6,139</u>
Total Program Expenditures	\$ <u>28,997,804</u>	\$ <u>67,962,344</u>	\$ <u>1,635,323</u>	\$ <u>8,327,937</u>	\$ <u>1,029,401</u>	\$ <u>788,687</u>	\$ <u>333,438</u>	\$ <u>109,074,934</u>
PROGRAM EXPENDITURES BY FUND								
General Fund	\$ 225,156			\$ 303,600		\$ 480,806		\$ 1,009,562
Special Revenue Fund	28,720,606	\$ 6,157,551		4,177,068	\$ 942,681	307,881	\$ 333,438	40,639,225
Debt Service Fund			\$ 197,228					197,228
Enterprise Fund		126,564		3,847,269	22,387			3,996,220
Internal Service Fund	52,042	3,581	1,438,095		64,333			1,558,051
Expendable Trust Fund		61,674,648						61,674,648
Total Program Expenditures	<u>28,997,804</u>	<u>67,962,344</u>	<u>1,635,323</u>	<u>8,327,937</u>	<u>1,029,401</u>	<u>788,687</u>	<u>333,438</u>	<u>109,074,934</u>
Less: Nonbudgeted Expenditures		61,622,236	180,239	2,842,873				64,645,348
Prior-Year Expenditure Adjustments	5,089	52,539	(32,820)	(12,181)	86	(502)	829	13,040
Actual Budgeted Expenditures	<u>28,992,715</u>	<u>6,287,569</u>	<u>1,487,904</u>	<u>5,497,245</u>	<u>1,029,315</u>	<u>789,189</u>	<u>332,609</u>	<u>44,416,546</u>
Budget Authority	32,593,301	6,593,357	3,915,383	6,573,872	1,151,679	793,840	370,669	51,992,101
Unspent Budget Authority	\$ <u>3,600,586</u>	\$ <u>305,788</u>	\$ <u>2,427,479</u>	\$ <u>1,076,627</u>	\$ <u>122,364</u>	\$ <u>4,651</u>	\$ <u>38,060</u>	\$ <u>7,575,555</u>
UNSPENT BUDGET AUTHORITY BY FUND								
General Fund	\$ 13,346			\$ 3,525		\$ 1		\$ 16,872
Special Revenue Fund	3,572,355	\$ 271,022	\$ 479,634	141,456	\$ 96,193	4,650	\$ 38,060	4,603,370
Enterprise Fund		31,347	7,513	931,646	7,113			977,619
Internal Service Fund	14,885	3,419	1,940,332		19,058			1,977,694
Unspent Budget Authority	\$ <u>3,600,586</u>	\$ <u>305,788</u>	\$ <u>2,427,479</u>	\$ <u>1,076,627</u>	\$ <u>122,364</u>	\$ <u>4,651</u>	\$ <u>38,060</u>	\$ <u>7,575,555</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-15.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1996

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental, Agency, and Expendable Trust Funds. In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable.

State accounting policy also requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary Funds. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned if measurable and records expenses in the period incurred, if measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. For audit reports issued after July 1, 1996, the Legislative Audit Committee approved a new financial schedule presentation for inclusion in agency audit reports. The schedules now include nonbudgeted revenue and expenditure activity and prior year revenue and expenditure adjustments for all financial schedules presented. In addition, financial activity for agency

Notes to the Financial Schedules

funds, if applicable to the agency, is included in the Schedule of Changes in Fund Balances and Property Held in Trust.

The financial schedules are prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustment. Accounts are organized in funds according to state law. The department uses the following funds:

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Department activity recorded in the Special Revenue Funds is primarily related to federal assistance programs. The department also uses this fund to account for workers' compensation regulation, the underinsured employees fund, and the employment security account.

Debt Service Fund - to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses this fund to account for federal financial assistance funds received to service a portion of the debt on the department's local job service offices.

Proprietary Funds

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the legislature intends that the department finance or recover costs primarily through user charges; or (b) where the legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. Department Enterprise Funds include the subsequent injury and uninsured employers funds along with the Montana Career Information System.

Internal Service Fund - to account for providing goods or services to other agencies or departments on a cost-reimbursement basis. Department Internal Service Funds include the Commissioner's

Notes to the Financial Schedules

Office, the Legal/Centralized Services Division, Information Services Bureau, Rental Recharges, and Special Projects.

Fiduciary Funds

Trust and Agency Funds - to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. Department fiduciary funds include Agency Funds and Expendable Trust Funds. The department accounts for the Unemployment Insurance program and tracks security bonds in an Expendable Trust Fund. The department accounts for wage collections and deposits provided to the department to guarantee workers' compensation payments in the Agency Fund.

2. **Annual and Sick Leave**

Employees at the department accumulate both annual and sick leave. The department pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in accompanying financial schedules. The department absorbs expenditures for termination pay in its annual operational costs. At June 30, 1995 and June 30, 1996, the department had a liability of \$2,637,496 and \$2,742,036, respectively. In the Proprietary Funds, the increase in vacation and sick leave liabilities are recognized as nonbudgeted expenses when the related liability is recorded at year-end. Of the amounts above, \$44,027 and \$33,763 are related to the Enterprise Fund and \$176,254 and \$180,245 are related to the Internal Service Fund.

3. **Pension Plan**

Employees are covered by the Montana Public Employees' Retirement System (PERS). The department's contribution to PERS was \$1,214,104 in fiscal year 1994-95 and \$1,132,775 in fiscal year 1995-96.

Notes to the Financial Schedules

- 4. General Fund Balance** The General Fund is a statewide fund. Each agency does not have a separate General Fund since its only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.
- 5. Cash Transfers** Several state agencies may record activity in the same accounting entity on SBAS. During the fiscal year, the activity for each agency is recorded on SBAS separately. At the end of the fiscal year, the cash balances for all the agencies using the accounting entity are transferred to the administering agency.
- 6. Agency Reorganization** During fiscal year 1995-96 the department reorganized its programs. The department's Legal Services Division was combined into the Commissioner's Office/CSD program, and the Unemployment Insurance Division program was combined into the Employment Relations Division and Job Service Division programs.
- The Schedule of Total Expenditures, Transfers-Out & Other Reductions by Object by Program for the fiscal year ended June 30, 1996, shows the amount of prior year activity charged to the old Legal Services Division program.
- 7. Property Held in Trust** The department is required to record all deposits and securities used to guarantee workers' compensation payments that are in the form of cash and cash equivalents as property held in trust in the Agency Fund. Prior to fiscal year 1994-95, the department recorded all guarantees as property held in trust. For guarantees such as surety bonds and letters of credit, the asset is actually held by a bank or insurance company that provides the department the guarantee. Since the department does not have the asset, the guarantee should not be recorded as property held in trust. During fiscal year 1994-95, the department reduced property held in trust by the amount of surety bonds and letters of credit. This reduced the amount recorded on the accounting records by \$49 million.

Agency Response

DEPARTMENT OF LABOR AND INDUSTRY
COMMISSIONER'S OFFICE



MARC RACICOT, GOVERNOR

P.O. BOX 1728

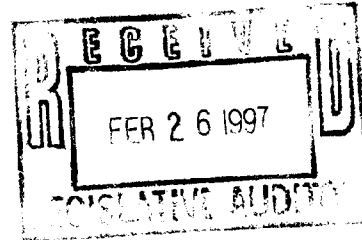
STATE OF MONTANA

(406) 444-3555
FAX (406) 444-1394

HELENA, MONTANA 59624

February 26, 1997

Jim Gillett
Deputy Legislative Auditor
Legislative Audit Division
Room 135, Sate Capitol Building
Helena, MT 59620-1705



Dear Jim:

Attached is our response to the financial-compliance audit of the department for the two fiscal years ended June 30, 1996. The copy of the audit report you provided to us is also enclosed.

We appreciate the cooperation of your staff in taking the time to review the audit findings with us in detail. We will be happy to continue working with you and the Legislative Audit Committee to answer any questions about the audit and our response.

Sincerely,

A handwritten signature in cursive script that reads "Pat Haffey".
Pat Haffey
Commissioner

PH/tp
Enclosure

Recommendation #1

We recommend the department determine whether recipients in its computer match were eligible to receive unemployment insurance benefits and recover amounts inappropriately paid.

Department's Response:

We concur. The cross match has been run, comparing our claimant files with enrollment files provided by the six university system units for a period of several semesters. The edits included in the computer cross match are loosely designed because of limitations in the data provided and our own systems and processes. The cross match produced a large list of claims requiring a cursory investigation. That investigation has been completed. Because of resource limitations, we are performing fact finding on the most recent claims identified in the cross match. From this point forward, the cross match will be a routine activity, with computer lists produced each semester, investigation performed, and necessary collection pursued.

Recommendation #2

We recommend the department ensure accurate information is used in the calculation of interest liabilities under the state's negotiated federal Cash Management Improvement Act agreement.

Department's Response:

We concur. The department will insure that the correct amounts are recorded in the worksheet daily. If the department finds it necessary to adjust the "checks issued" total after the incorrect total has been used in the clearance pattern, the department will provide a footnote explaining the reason for the adjustment. In addition, the department will clarify the practice of rounding their cash draws and insure that the proper method of rounding is reflected in the next CMIA agreement.

Recommendation #3

We recommend the department calculate Trade Readjustment allowances in accordance with federal regulations.

Department's Response:

We concur. As the audit report indicates, we have made changes in the processes that we expect will reduce errors. In addition, if we are able to rewrite the unemployment insurance benefits system as proposed, we will include the Trade Readjustment Act processing in that system.